Perennial Value Shares Wholesale Trust

MONTHLY REPORT MAY 2020

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (%p.a.)
Perennial Value Shares Wholesale Trust (Net)	7.3	-11.7	-11.9	-8.9	0.1	0.8	7.3
S&P/ASX 300 Accumulation Index	4.6	-9.7	-9.8	-6.5	4.5	4.3	7.1
Value Added	**2.7**	**-2.0**	**-2.1**	**-2.4**	**-4.4**	**-3.5**	**0.2**

Since inception: June 2001. Past performance is not a reliable indicator of future performance.

Overview

- Global markets continued to rally in May, as the peaking of coronavirus infections saw many countries moving to ease lockdowns and restart their economies.
- The Australian market was also strong, as infection rates fell to very low levels and restrictions began to be eased. The ASX300 Accumulation Index rose +4.6%, building on April's +9.0% rally and having now risen +27.5% from its mid-March low.
- The Trust delivered a return, after-fees of +7.3%, outperforming the market by +2.7%, with strong gains across a large number of holdings.
- In particular, many of the Trust's mid and small cap holdings performed very strongly, recovering after having been sold down aggressively in March.
- The positive aspect of the sell-off is that it has provided the opportunity to add a number of quality stocks to the portfolio at very attractive prices, adding to the Trust's potential to deliver strong returns going forward.

Perennial Value Shares Wholesale Trust

The Trust aims to grow the value of your investment over the long term via a combination of capital growth and tax effective income, by investing in a diversified portfolio of Australian shares, and to provide a total return (after fees) that exceeds the S&P/ASX 300 Accumulation Index measured on a rolling three-year basis.

Portfolio Managers
Stephen Bruce, Damian Cottier, Andrew King

Trust FUM
AUD $544 million

Distribution Frequency
Half yearly

Minimum Initial Investment
$25,000

Trust Inception Date
June 2001

Fees
0.92%

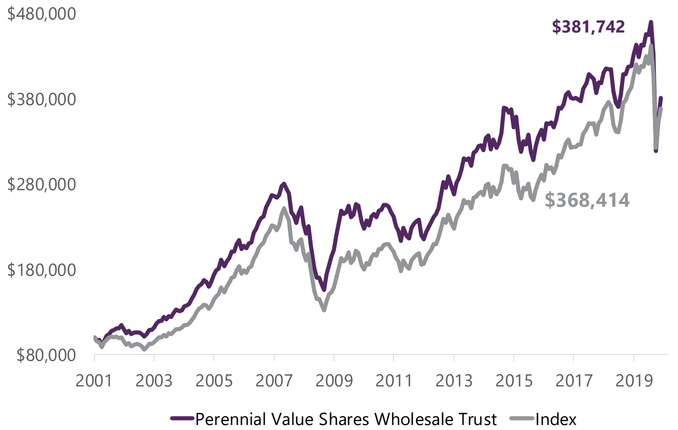
APIR Code
IOF0206AU

Portfolio Characteristics – FY21	Trust	Market
Price to Earnings (x)	13.0	15.8
Price to Free Cash Flow (x)	11.9	15.0
Gross Yield (%)	5.4	4.9
Price to NTA (x)	1.7	2.1

Source: Perennial Value Management. As at 31 May 2020

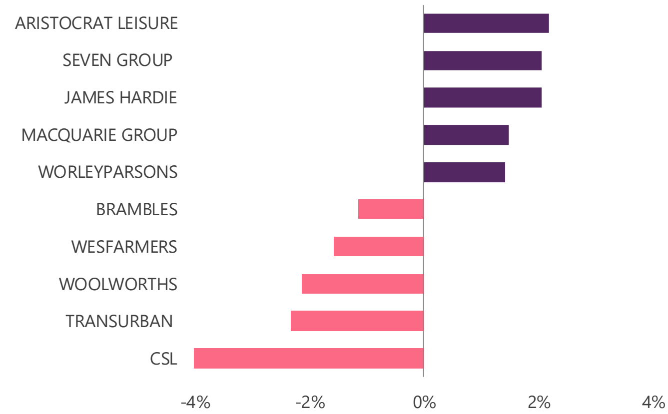
The above figures are forecasts only. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.

Growth of $100,000 Since Inception

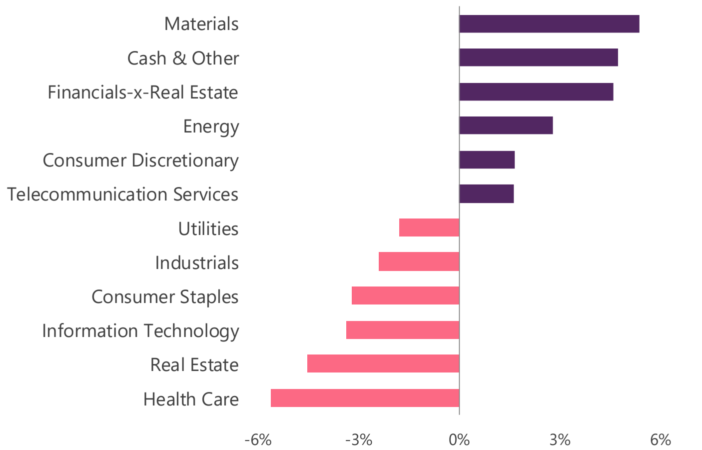


Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Top 5 Over / Underweight Positions vs Index



Sector Active Exposure vs Index



Trust Review

Global markets continued to rally in May, as the peaking of coronavirus infections saw many countries moving to ease lockdowns and restart their economies. The Australian market was also strong, as infection rates fell to very low levels and restrictions began to be eased. The ASX300 Accumulation Index rose +4.6%, building on April's +9.0% rally and having now risen +27.5% from its March low.

Improving sentiment towards the economic outlook saw cyclical sectors lead the market higher, with the IT (+14.3%), Metals and Mining (+9.1%) and Consumer Discretionary (+6.9%) sectors all up strongly. Energy (+4.7%) also continued to recover and a strong rally from the major banks late in the month, saw the Financials sector (+5.3%) also outperform.

The Trust returned +7.3%, outperforming the market by +2.7%, with strong performances from a broad range of stocks.

Periods of indiscriminate selling create opportunities for investors to buy high quality stocks at unusually attractive valuations and the Trust took advantage of the March selloff to add a number new holdings. Many of these have subsequently performed strongly, including industry-leading businesses such as Goodman Group (+16.9%), James Hardie (+15.7%), Magellan Financial Group (+14.4%) and Ramsay Healthcare (+11.9%), all of which were able to be bought at well below their historical valuations.

In recent times, the Trust has been increasing its exposure to mid and small cap stocks, as this is an area of the market where we see attractive valuations and significant potential for outperformance. Pleasingly, many of these holdings performed particularly strongly over the month. Examples included investment bank Moelis Australia (+58.6%), retailers Kathmandu (+32.7%) and City Chic Collective (+23.9%), salary packager Smartgroup (+24.3%), mining services company Perenti (+30.8%), retirement village operator Ingenia Communities (+17.6%) and diagnostic imaging provider Integral Diagnostics (+13.5%).

Gold is one of our preferred defensive exposures at present and a strong gold price saw the Trust's gold holdings perform well, with St Barbara (+20.5%), Evolution Mining (+19.4%), Northern Star Resources (+15.7%) and Newcrest Mining (+11.0%). Currently, we regard many of the other defensive sectors such as Healthcare (-5.1%) and Consumer Staples (-0.5%) to be overvalued, having been bid up to very expensive levels by investors seeking certainty of earnings. The irony is that when stocks are trading on very expensive valuations, not only is their upside potential limited but the risks are often skewed significantly to the downside. CSL (-10.7%) is a perfect case in point. While it is undoubtedly an outstanding business, it currently trades on a P/E of over 35x next year's earnings. When a stocks is "priced for perfection", there is little room for error and the potential for a de-rating is significant. As a value investor, we tend naturally to be underweight these expensive stocks and sectors.

May also saw the conclusion of the interim reporting season for the major banks and all have now announced significant increases to their bad debt provisions. In addition, ANZ, NAB and Westpac have all either deferred or significantly reduced their half-yearly dividends. Concern over the impacts of coronavirus, as well as ongoing fallout from the Royal Commission, had seen the bank underperform significantly over the past 12 months, to trade at levels where they offered good long-term value. As a result, the increased optimism around the economic outlook saw a sharp rally, leaving the majors up an average of +5.0% for the month. This benefited the Trust which had moved to a modest overweight position during the month.

Macquarie Group (+8.9%) also reported its full-year result in May, delivering its second highest ever annual profit. This was achieved despite taking a significant increase in provisions, which one suspects may well turn out to be conservative. Graincorp (+24.9%) delivered a weak, drought-affected result but rallied strongly on the very positive seasonal outlook, while the recently-demerged United Malt Group (+5.2%) also outperformed.

Other strong performers came from a range of sectors and included fund manager Janus Henderson (+35.4%), tourism operator Event Hospitality (+18.2%), media companies Carsales (+13.8%) and Newscorp (+9.1%), insurance broker Steadfast (+8.8%) and Downer EDI (+8.1%).

The key negative contributors over the period included Worley (-6.7%), South32 (-3.8%), Aristocrat Leisure (+0.9%) and Woodside Petroleum (+1.0%).

Trust Activity

During the month, we took profits and reduced holdings in stocks which had outperformed such as Carsales, BHP, Rio Tinto, St Barbara, Northern Star Resources, Macquarie Group and James Hardie. Proceeds were used to increase our holding in a range of good value opportunities such as QBE Insurance, Kathmandu, Perenti, Ingenia Communities and the major banks. At month end, stock numbers were 65 and cash was 4.6%.

Outlook

Despite the rally, the market is still well down from its February highs. While the sharp slowing of activity means that forecasting near-term earnings for many companies is difficult, the market's fall means a significant amount of bad news is now factored into share prices.

Looking forward, while the current situation is unprecedented, so too has been the response of governments, with coordinated policies covering monetary easing, fiscal stimulus and legislative actions. While it is impossible to know how this will ultimately play out, signs are emerging that worst of the health crisis may be behind us and the first steps towards normalisation may not be too far away.

Further, Australia has so far fared very well relative to most other countries, meaning it is reasonable to expect that we are well placed to lead others in terms of a recovery in activity.

Finally, the silver lining of a downturn such a this is that it provides the long-term investor with opportunities to buy quality businesses at very attractive prices. Indeed, we have been taking the opportunity to add a number of new stocks to the portfolio which we are confident will deliver strong returns to investors over time.

As always, our focus will continue to be on investing in quality companies with proven business models and strong balance sheets, which are offering attractive valuations and have the ability to deliver high levels of franked dividend income to investors.

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